DISCOVER
BANK

April 14, 2010

__Via Email__
Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1384

Discover Bank ("Discover") appreciates the opportunity to comment on the proposed amendments to Regulation Z (the "Proposed Rule") published by the Board of Governor's of the Federal Reserve System (the "Board") to implement the provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act") that go into effect on August 22, 2010.

I. General

Discover strongly agrees that credit card customers should not be unreasonably penalized for violations of the cardmember agreement and welcomes the Board's Proposed Rules in this area. We agree that the factors that should be used to determine whether the amount of a fee is reasonable and proportional to a violation include the costs incurred by an issuer as a result of the violation, the deterrent impact of the amount of the fee and cardholder behavior. We believe that penalty fees that are appropriately priced in accordance with these factors will: (1) result in an increase in the transparency of pricing; (2) not unreasonably penalize consumers; (3) promote good credit management; (4) ensure the continued availability and affordability of credit; and (5) support the safety and soundness of issuers. We further believe the establishment of an appropriate safe harbor amount for penalty fees can help achieve these goals while facilitating compliance by issuers and increasing consistency and predictability for cardmembers. By contrast, if a safe harbor amount is inappropriately low, it will likely have the unintended adverse consequence of further reducing credit availability throughout the credit card industry and increasing APRs as well as other fees, such as annual fees, for all consumers, which could inhibit the economic recovery.

We believe an appropriate safe harbor for late fees that would adequately address the average issuer costs and deter late payments would be in the range of $34 to $50 for the following reasons which are more fully discussed in the body of this letter:

- Cost data compiled by an industry coalition (the "Coalition") in which Discover participated, indicates that the **average costs incurred by issuers as a result of a late payment violation begin at $28.40, not adjusted for uncollected late fees, and $32.45 to account for uncollected late fees.** [1] It should be noted, that Discover's costs are substantially higher than the industry average due to additional efforts Discover makes to assist cardholders who pay late.
- The results of a survey conducted of credit cardholders by the Coalition indicate that a late fee must be at least $50 to $54 in order to deter a significant percentage of cardholders and half of all cardholders are not deterred by a late fee of $30 to $34. Regression models developed by Argus ("Argus Models") further indicate that **late fees below $28 have no deterrent impact on the vast majority of cardholders**.[2] Discover regression models indicate that lowering the late fee from the current level will likely result in more consumers paying late and have the unintended adverse consequence of further increasing the cost of credit and reducing the availability of credit.[3]
- A recent attitudinal survey conducted by Discover indicates that **82% of cardholders believe that only those who engage in a violation should bear the costs associated with that violation, as opposed to penalizing all cardholders**.[4]
- Given the CARD Act's restrictions on increasing APRs as a result of late payments, late fees are the predominant means by which issuers can deter late payments, promote good credit management and recover costs associated with a late payment.

We discuss the need for an appropriate safe harbor and other concerns in greater detail below. For the Board's convenience, we have organized our comments according to the section order of Regulation Z.

II. Limitations on Penalty Fees (Section 226.52(b))

A. Fees Based on Costs (Section 226.52(b)((1)(i))

The Proposed Rule would permit issuers to impose a fee for violating the terms of an account if the issuer has determined that the dollar amount of the fee "represents a reasonable proportion of the total costs incurred by the issuer as a result of that type of violation." The Proposed Rule would exclude losses and associated costs from the cost determination. At a minimum, we believe the costs that issuers incur as a result of late payments include collections expenses and directly attributable expenses. These expenses include, but are not limited to, employment expenses, technology hardware and software (e.g., telephony expenses and collection models to target customers appropriately), training, and facilities expenses. In addition, the costs of a late payment should include the cost of funding delinquent accounts prior to charge off.

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[1] This data, which was compiled by Argus Information & Advisory Services, LLC ("Argus") is being submitted separately by the law firm of Morrison & Foerster (the "Argus Data").
[2] The results and methodology for this survey ("Consumer Survey"), as well as the results of the Argus Models are being submitted separately by the law firm of Morrison & Foerster.
[3] A summary of the results of this model are attached hereto as Appendix A.
[4] The results and methodology for this survey (the "Discover Survey") are attached hereto as Appendix B.

By excluding losses from the cost determination, the Board would prevent issuers from recovering the true costs associated with late payments. The Board has determined to exclude losses based on its belief that most violations of the account terms do not actually result in losses. In support of this conclusion, the Board relies on data submitted by Argus in 2008 which indicated that 93% of accounts that were over the credit limit or delinquent twice in a twelve month period did not charge off during the subsequent months. The Board would summarily dismiss the fact that, in the fourth quarter of 2009 alone, average credit card charge-off rates for all accounts were 9.50%[5], representing approximately $16 billion dollars in losses across the credit card industry.[6] We agree that if we were to attempt to recover all losses through the use of late fees, the result would be an overly burdensome late fee amount. However, given that, but for late payments there would be no losses; we believe it is both fair and reasonable for issuers to use late fees to recover a reasonable portion of losses from those who pay late.

Relying on conclusions reached by the United Kingdom's Office of Fair Trading ("OFT"), the Board suggests that issuers should spread costs associated with losses among all consumers through upfront APRs and penalty rate increases. However, this would compel the least risky customers to subsidize the behavior of the most risky. Moreover, the ability of issuers to re-price accounts to reduce risk exposure and recover costs associated with an increased risk of charge-off has been severely impeded by the CARD Act which prohibits rate increases during the first year after account opening and with respect to existing balances unless an account is 60 days' past due and has been provided 45 days' advance written notice of the increase. At 105 days' past due, the collectability of an account significantly decreases. Moreover, an issuer's ability to predict the likelihood of delinquency and charge-off for new accounts deteriorates progressively with time beyond the initial 12 month horizon.

Unlike the CARD Act, it is our understanding that the OFT did not place restrictions on the ability of issuers to re-price accounts based on risk. Accordingly, penalty fees are the predominant means by which issuers can offset costs associated with late payments. **The interactions of the CARD Act's restrictions on pricing and penalty fees will have a significant adverse effect on issuers and will likely have the unintentional adverse consequence of increased APRs and reduced credit availability for all consumers, possibly impacting the economic recovery.**

For the reasons discussed above, we urge the Board to, at the very least, permit issuers to either include those late fees that are not collected due to charge-off or waiver in the total costs of a late payment violation, or to only include collected late fee assessments in the denominator of the cost equation.

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[5] Federal Statistical Release Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks; Data from Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (1995-2000; FFIEC 031 through 034; 2001-: FFIEC 031 & 041).
[6] Federal Reserve – Assets and Liabilities of Commercial Banks in the United States – H.8

B. Fees Based on Deterrence (Section 226.52(b)(1)(ii))

As an alternative to permitting an issuer to impose a penalty fee based on its costs, the Proposed Rule would permit an issuer to impose a penalty fee if the issuer "has determined that the dollar amount of the fee is reasonably necessary to deter that type of violation using an empirically derived, demonstrably and statistically sound model that reasonably estimates the effect of the amount of the fee on the frequency of violations." As the Board recognizes, due to a lack of data, it would be extremely difficult, if not impossible, for an issuer to develop such a model by the August 22, 2010 effective date. Accordingly, Discover requests that the Board permit issuers to use alternative methods to determine the deterrent effect of a specific dollar amount including, but not limited to, consumer surveys. Such surveys are easily validated and replicated. Moreover, the Board has previously recognized the value of consumer surveys and testing, having used them to assist in promulgating various rulemakings, including the amendments to Regulation Z that were published by the Board in January 2009.

As discussed above, according to the results of the Consumer Survey, the dollar amount reasonably necessary to deter at least 80% of cardholders from late payment is $50 to $54. Half of all cardholders are not deterred with a $30 to $34 late fee. The results of this survey are further supported by the Argus Models which indicate that late fees of less than $28 have no deterrent effect on the vast majority of cardholders and there is a statistically significant correlation between the amount of the late fee and delinquency rates. Our own regression model demonstrates a high correlation between the late fee amount and delinquencies. Specifically, using historical data and controlling for other variables, our model demonstrated that a $10 decrease in the late fee assessed, from $39 to $29, would result in a significant increase (approximately 35%) in the probability of an account going delinquent during a 12-month period. Although data outside of this price range is not available, extrapolating lower price points indicates that further increases in delinquency rates would likely occur if late fees were lowered below $29.

C. Reevaluation of Determinations (Section 226.52(b)(1)(iii))

Proposed Section 226.52(b)(1)(iii) would require issuers to reevaluate their cost or deterrence determinations on an annual basis. If, as a result of an issuer's reevaluation, an issuer determines that a higher penalty fee is justified, the Proposed Rule would require an issuer to provide a consumer with 45 days' advance written notice of the increase as well as a right to reject the increase. Since penalty fees will either have to be justified on the basis of cost or deterrence, we request that the Board clarify that the right to reject does not apply in these circumstances.

D. Prohibited Fees (Section 226.52(b)(2))

1. Fees that exceed dollar amount associated with violation (Section 226.52(b)(2)(i))

The Proposed Rule would prohibit an issuer from imposing a penalty fee even if it was allowed under Section 226.52(b)(1), or by the safe harbor in Section 226.52(b)(3), if the amount of the penalty fee exceeds the dollar amount associated with the violation for which the fee is imposed. Specifically, a late fee could not exceed the amount of the minimum payment that was late and a returned payment fee could not exceed the minimum payment.

The proposed limitation is not required by the CARD Act, nor is it consistent with fees used elsewhere in the economy and by the public sector to dissuade negative behavior. For example, municipalities do not penalize drivers who fail to feed twenty-five cents into a parking meter with a twenty-five cent fine, because a token penalty would not be adequate to dissuade drivers from failing to pay in advance for parking. Instead, the fine is set at a high multiple of the parking meter fee. Other examples can be found in penalties commonly assessed for violating speeding laws and high-occupancy vehicle lane restrictions, in penalties assessed by the Internal Revenue Service and state and local governments for late tax payments, and in penalties imposed by utility companies, Internet service providers and other companies for missing payment dates on bills for their services.

The primary convenience of a credit card is that it provides consumers with the option to extend the repayment period of their outstanding balance, by making low minimum payments. The Proposed Rule will result in penalty fee amounts that could be too small to either permit issuers to recover costs associated with these violations or to deter such violations. Although the Board acknowledges that this could be the impact of the Proposed Rule, the Board suggests that issuers should attempt to either reduce costs for these small dollar amounts or build those costs into upfront rates and fees. However, as discussed above, the CARD Act significantly restricts the ability of issuers to re-price accounts based on risk. Moreover, requiring issuers to spread the costs associated with late payments across all consumers will result in the least risky consumers subsidizing the more risky. If issuers are prevented from, at a minimum, recovering the costs associated with a violation, they may be forced to increase the minimum payment on such accounts, thereby potentially increasing charge-off rates.

We further disagree with the Board that consumers may be unlikely to change their behavior based on this limitation. As discussed above, the Consumer Survey shows that a late fee of less than $30 to $34 will not deter half of all consumers. In addition, the Argus Models indicate that late fees below $28 do not deter the vast majority of cardholders, and our regression model demonstrates that delinquencies would significantly increase if late fees were lowered from $39 to $29. In order to promote good credit management, we strongly urge the Board to permit issuers to charge penalty fees in amounts that are otherwise permitted under the rule, as long as the amount does not exceed the account balance. When a customer pays late, we believe the account balance more accurately represents the amount associated with the violation as the entire balance is at risk of charge-off, not just the minimum payment.

2. Multiple fees based on a single event or transaction (Section 226.52(b)(2)(ii))

The Proposed Rule would prohibit issuers from imposing both a late fee and returned payment fee for a single payment on the basis that charging multiple fees based on a single event is unreasonable and disproportionate to the conduct of the consumer.[7] However, a returned payment results in two separate violations of the cardholder agreement and the fees assessed represent different costs incurred by the issuer as a result of that returned payment. In the case of a payment made with a "bad" check, the card issuer incurs a direct, and significant, additional cost assessed by its depository institution. Issuers also incur additional costs as a result of a bad check as they often re-submit checks for payment and have to make adjustments to "undo" the payment. The determination of whether a payment was late and whether it was made with a bad check also involve different processes and often different timing as issuers make the determination as to whether a payment is late at cycle, whereas a payment may be returned in the following cycle. Accordingly, it is reasonable and proportional to charge both a late fee and returned payment fee for a single payment. Imposing both a late fee and returned payment fee for a returned payment is also necessary to deter such behavior as, quite often, the submission of a payment that is returned unpaid is the result of intentional behavior such as either "gaming" or fraud.

E. Safe Harbor (Section 226.52(b)(3))

1. The Safe Harbor should be based on an amount that includes issuers' costs and deters violations

A safe harbor fee, we believe, will act as a *de facto* cap on penalty fees as an issuer who charges an amount in excess of the safe harbor would be placed in the burdensome position of having to cost-justify the amount of the penalty fee on an annual basis. If the safe harbor is not based on an amount that sufficiently addresses the average issuer's costs and deters violations, the safe harbor could have the unintended adverse consequence of reducing credit availability and increasing APRs for all consumers. Issuers would be less prone to forgive fees or reduce APRs for those customers that are demonstrating a hardship.[8] In addition,

[7] We believe the impetus for this prohibition may have been related to the concern that cardholders were incurring multiple penalty fees in the same billing period. Historically multiple fees have occurred in the same billing period when a cardholder was both late and overlimit. Given several issuers, including Discover, have eliminated the assessment of overlimit fees, and the fact that the CARD Act prevents issuers from assessing overlimit fees unless a cardholder opts-in to the fee, we believe there will be a substantial reduction in the instances of multiple penalty fees occurring in the same billing period, thereby eliminating the need for this prohibition.

[8] To the extent that a safe harbor fee is based on industry-wide cost information, it would adversely impact issuers whose other costs exceed the average as a result of internal decisions that have beneficial effects on consumers or the economy. For example, Discover's decision to minimize automated voice recognition technology in favor of

issuers may have to consider taking other drastic means to cut costs, such as curtailing customer service.

A particular concern is the Proposed Rule's safe harbor of 5% of the dollar amount associated with the violation (up to a specific dollar amount). Given that the Proposed Rule would define the dollar amount associated with a late payment or returned payment as the required minimum payment, we believe that, as proposed, the 5% safe harbor would be of little consequence in either covering issuer costs or deterring violations. Most credit card issuers typically allow customers to make low minimum monthly payments, a clear benefit to families whose budgets are stressed by unanticipated expenses or disruptions in income.[9] Accordingly, a 5% late fee of the minimum payment could be invoked only in circumstances involving extremely high balances or where a cardholder is in the later stages of delinquency. However, issuers are less inclined to charge a higher penalty fee for accounts that are in later stages of delinquency, as the fee is not likely to either be collected or have a deterrent effect. Moreover, when a cardholder misses a payment, the entire account balance is at risk of charge-off, not just the minimum payment. A flat late fee amount, as opposed to one that is based on a percentage of the minimum payment, is easier for issuers to disclose and for consumers to understand. Based on the results of the Consumer Survey, a flat late fee amount is also preferred by consumers. Accordingly, we strongly urge the Board to eliminate the percentage of minimum payment approach as a determining factor for the safe harbor. If the Board proposes to retain a safe harbor based on a percentage of the violation, we would urge the Board to clarify that the dollar amount associated with a late payment is the account balance, not the minimum payment.

In developing the safe harbor, the Board considered the penalty fees charged by small card issuers, such as community banks and credit unions, to suggest that penalty fees that are substantially lower than the current average may be sufficient to cover costs and to deter violations. However, we believe the Board's reliance on the fees charged by these issuers is misplaced. Credit unions are clearly distinguishable from major bankcard issuers: they are non-profit financial cooperatives owned by a homogeneous membership group typically residing in a local community (perhaps working for a single employer or represented by a single union), the members of which often have multiple financial arrangements with their credit union. They tend to have lower charge-off rates and, therefore, lower costs associated with violations.[10] Thus, the penalty fee amounts charged by these institutions are not indicative of the costs incurred by, or the penalty fees that are an appropriate deterrent for, large card issuers with a nationwide and

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customer-friendly "live" assistance, and to conduct all customer service functions with U.S.-based employees, provides clear consumer benefits but increases costs. Unless such costs are taken into account in setting late fees, the Board will create an incentive to reduce or eliminate such costs to the potential detriment of customers and domestic employment.

[9] Although most issuers require a minimum monthly payment of 2-3% of the account balance, the majority of cardholders pay more than the minimum monthly payment. On average, our cardholders pay 17-21% of the account balance, or up to 10 times the required minimum monthly payment.

[10] CUData.com

diverse customer base, and should not be given any consideration. Similarly, small bank issuers only represent an insignificant share of the credit card industry and have cardholder portfolios with characteristics that differ from the major issuers (e.g., local customer base with multiple accounts at their local bank). The Argus Data clearly shows that the amounts being charged by small banks is not sufficient to cover costs associated with late payments for the majority of card issuers. These differences make it unreasonable to base the safe harbor amount solely on the amounts charged by small banks.

The Board's reliance on the safe harbor amount established by the OFT in 2006 is similarly misplaced. The OFT considered only the costs incurred by issuers in setting the safe harbor amount, but not other factors which are mandated by the CARD Act, such as deterrence of the violation or the conduct of the cardholder. Moreover, while the OFT placed limitations on the amount of the penalty fees that can be charged, it is our understanding that they did not, as discussed above, place restrictions on the ability of card issuers to re-price accounts for risk. Accordingly, the OFT left issuers with the ability to utilize additional tools, other than fees, to recover costs and resulting losses.

2. Suggested Safe Harbor amounts

The Argus Data shows that average issuer costs start at $28.40, not adjusted for uncollected late fees, and $32.45 to account for uncollected late fees. With respect to deterrence, the Consumer Survey shows that a late fee of at least $50 to $54 is required in order to deter 80% of consumers and half of all consumers are not deterred by a late fee of $30 to $34. The Argus Models indicate that late fees of less than $28 have no deterrent impact on the vast majority of consumers and our internal regression model demonstrates that there would likely be a substantial increase in delinquencies (approximately 35%) if late fees were lowered from $39 to $29. Based on this data, we believe that an appropriate safe harbor amount would be in the range of $34 to $50 in order to ensure issuers can both recover costs associated with a late payment and deter such behavior.

Discover's own internal cost data is higher than the industry average due, in part, to the fact that we have chosen to provide readily-accessible, live customer service by U.S.-based employees, not offshore service providers, as well as other customer benefits such as cards with no annual fees, no overlimit fees, rewards to all cardmembers, liberal fee waiver policies and other benefits. We urge the Board, in developing the safe harbor amount, to take into consideration not only industry average cost and deterrence data, but also costs resulting from the provision of additional or unique benefits or services. Otherwise, issuers experiencing above-average costs or offering enhanced benefits will be unable to take advantage of the safe harbor and have to justify their fees or will have to cut services.

We would also suggest that the Board adopt a flat late fee amount as opposed to alternative methods of determining penalty fees. Based on the results of the Consumer Survey, the overwhelming majority of consumers preferred a flat late fee amount. We also believe that a flat late fee is easier for consumers to understand and for issuers to disclose.

With respect to the returned payment fee, we would suggest that the Board adopt the same safe harbor amount as the late fee amount. If the final rule precludes issuers from charging both a late fee and a returned payment fee for the same returned payment, this would eliminate the need for issuers to choose between two different fee amounts. Moreover, it can be reasonably inferred from the results of the Consumer Survey regarding the amount required to deter a late payment violation, that the same amount is required to deter a returned payment violation.

III. Reevaluation of Rate Increases (Section 226.59)

Discover agrees that, in determining whether to decrease an APR on an account for which the rate was previously increased based on risk, market or other factors, issuers should be permitted to either review the same factors on which a rate increase was based or the factors that it currently considers when determining the rates applicable to its credit card accounts. Risk and market factors are continuously changing and issuers must have the ability to make APR adjustments based on risk and market data that is pertinent and current when adjustments are under consideration. Issuers should not be required to make decisions on historic information that may no longer be relevant if data that is more predictive subsequently becomes available.

We are also concerned that requiring issuers to conduct these reviews, in perpetuity, until the rate is reduced to the rate that applied to the account prior to the increase, will impose undue burdens on issuers with no resulting benefit to consumers. The CARD Act currently restricts issuers from increasing rates on existing balances except under limited circumstances. Accordingly, most rate increases that an issuer will be reviewing will have applied only to new transactions with prior notice to the cardholder. However, issuers must apply any rate decrease to the entire existing balance to which the increased APR applied. Given the limited opportunity for issuers to increase the rate on that existing balance if risk factors change, the Board should adopt a limit on the time period required for issuers to reevaluate accounts. We believe the appropriate amount of time that issuers should be required to reevaluate accounts for a rate decrease is a period of two years. This will provide cardholders with an opportunity to cure any default that led to the rate increase and for issuers to account for any changes in market conditions or other factors.

IV. Transition Period

The Proposed Rule would require issuers to make changes to their existing penalty fee structures. This will in turn necessitate changes to disclosures, cardmember agreements and operations less than 60 days after the July 1, 2010 effective date of other extensive and costly amendments to Regulation Z. Given the extent of the changes required, Discover requests that the Board provide for a transition period during which issuers would be permitted to continue to use existing disclosures provided they do not charge penalty fees greater than what is permitted by the final rule. To require otherwise will place issuers at risk of non-compliance.

V. *Conclusion*

Discover appreciates the opportunity to provide the Board with comments on the Proposed Rule. Should you have questions regarding this letter, please feel free to call Jenny Wilkie at 224-405-2946.

Respectfully submitted,

Christina Favilla

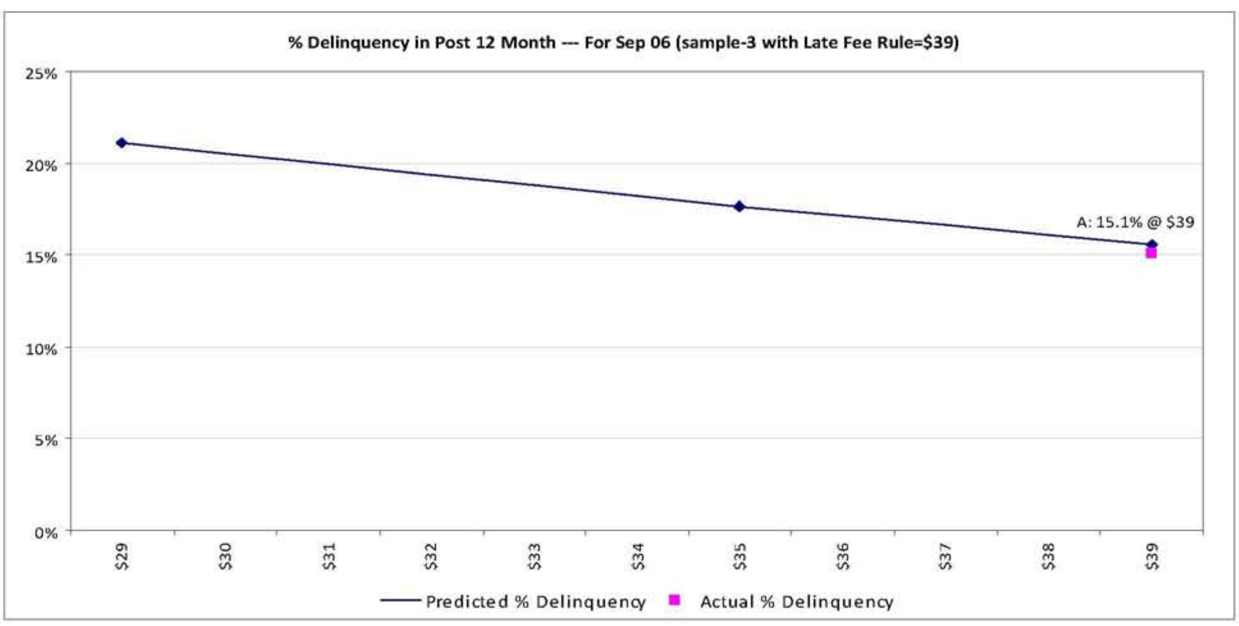
Discover Bank
By: Christina Favilla
President

APPENDIX A: Summary of Late Fee Deterrence Model

Using historical data, Discover derived a statistically significant, logistic regression model that predicts the probability of an account going delinquent during a 12 month period based on the prior 6 months of activity. The model used account level data for 300M gross active accounts, between May 2001 and September 2007, during which the different late fee amounts assessed, ranged between $29 and $39. The model only focused on non-charge-off accounts, implicitly assuming that accounts that charge-off will do so irrespective of the late fee amount charged.

The model shows that the "late fee amount" is a significant variable while controlling other credit bureau variables and Discover cardmember performance variables such as consumer risk, balances etc. **It can be inferred that a $10 decrease in late fee assessed (from $39 to $29) results in a 35% (15.6% to 21.1%) increase in the probability of an account going delinquent in the 12 months.**

This increase in the probability of delinquency also increases the cost incurred due to the violation, thus having a 2nd order increasing impact on the overall cost of a violation.



Note: The graph is based on Sep'06 sample. Delinquency is observed in post 12 month between Oct'06 and Sep'07

Model Details

The LOGISTIC Procedure

Analysis of Maximum Likelihood Estimates

Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq	Standardized Estimate
Intercept	1	0.4409	0.0531	68.8179	<.0001	
Late_Fee_Rule	1	-0.0443	0.00134	1092.2123	<.0001	-0.1004
max_dlqnt_cycl_cnt_6	1	1.1019	0.0122	8193.8599	<.0001	0.3071
STD_MRC_BAL_pos_6m	1	-0.0314	0.00403	60.9247	<.0001	-0.0307
TOT_FC_ACT_NET	1	0.00486	0.000120	1633.9850	<.0001	0.1459
A75_OPEN_RVLR_PCT	1	0.00132	0.000220	35.9654	<.0001	0.0216
fico_score	1	-0.00039	0.000040	94.5823	<.0001	-0.0308
A145_nof_trds_30_dpd	1	0.2000	0.00534	1403.7044	<.0001	0.1203
A07_Mths_snc_oldst_B	1	-0.00018	0.000060	8.5784	0.0034	-0.0101
A31_nof_BC_trds_GT_2	1	-0.0780	0.00420	345.3131	<.0001	-0.0829
A148_nofrev_trds_uti	1	0.0157	0.00442	12.5497	0.0004	0.0152
A119_Numof_pubrec_de	1	0.0454	0.00515	77.7561	<.0001	0.0220
A115_nof_inq_in_lst6	1	0.0284	0.00285	99.3684	<.0001	0.0266
A88_Highst_Bal_All_M	1	5.361E-7	5.385E-8	99.1012	<.0001	0.0299
A154_std_loan_cnt	1	-0.0174	0.00292	35.6584	<.0001	-0.0164
Tot_Credit_Limit	1	-0.00008	1.849E-6	1727.3722	<.0001	-0.1814
Mth0_bal_pymt_ratio	1	0.000778	0.000213	13.3449	0.0003	0.0106
Num_Mths_tot_bal_dec	1	-0.0592	0.00346	293.3779	<.0001	-0.0526
Num_Mths_Incr_Pst_Du	1	0.1284	0.00573	501.8940	<.0001	0.0667
Mths_Merch_FC_active	1	0.1516	0.00422	1289.9891	<.0001	0.1936
Mths_Merch_sls_activ	1	-0.0494	0.00282	306.2356	<.0001	-0.0685
Mths_Decr_Merch_Bal	1	-0.1286	0.00425	917.0010	<.0001	-0.1077
Avg_Cash_Sales_6m	1	0.000439	0.000063	49.0462	<.0001	0.0226
Mths_CA_sales_active	1	0.0437	0.00971	20.2133	<.0001	0.0147
Avg_BT_Sales_6m	1	0.000120	0.000023	27.7868	<.0001	0.0207
Mths_Decr_bt_Bal	1	-0.0985	0.00620	252.9035	<.0001	-0.0596

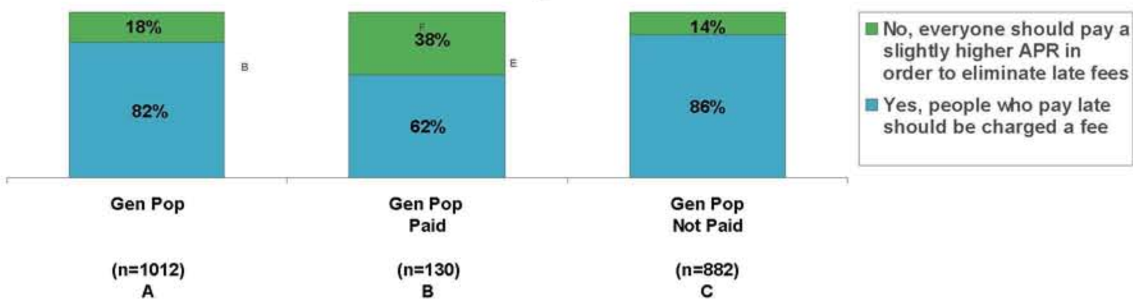
Appendix B: Late Fee Pricing Research - Results Summary

Question 1: When thinking about fees that banks charge on late payments on credit cards, do you believe that customers who pay late should be charged a fee?

- Yes, people who pay late should be charged a fee
- No, everyone should pay a slightly higher APR in order to eliminate late fees

Key Findings

- Overall, consumers feel that a late fee should be charged to those who do not pay on time. This is greatly preferred over charging everyone a higher APR instead.
    - Even cardholders who have been charged a late fee in the past prefer this option over one that eliminates late fees but has higher APRs

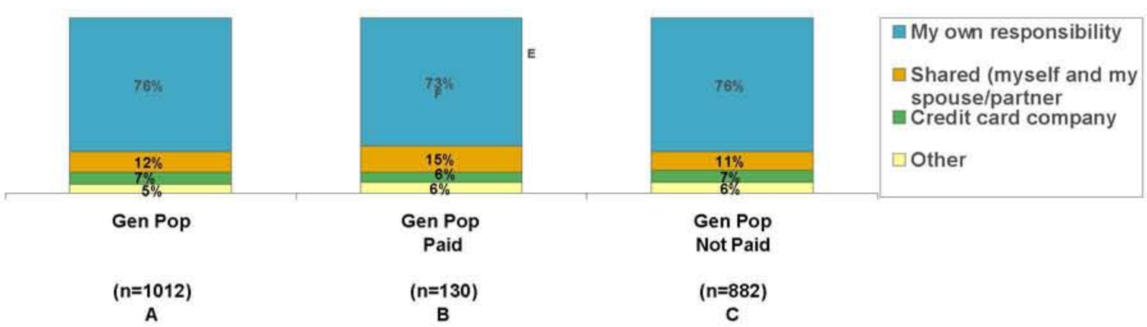


Question 2: Who is at fault for the late fee charged on your primary credit card?

- My own responsibility
- Shared (myself and my spouse/partner
- Credit card company
- Other

Key Findings

- Consumers take responsibility for their late charges. Similar views regarding who is responsible are held by those who have and have not paid a fee.
    - Most say they are responsible, with a small minority saying the responsibility is shared. Very few feel the responsibility lies with the credit card company.



Survey Methodology

- 1,012 online interviews conducted among the general population during March 25-31, 2010.
- Respondent qualifications included:
    - Male and Female, age 18+
    - Had no critical industry affiliation/sensitive employment
    - Had a credit card from Discover, American Express, Bank of America, Capital One, Chase, or Citibank (Visa/MasterCard)
- Responses were further segmented by those who indicated they paid a late fee in the last 12 months vs. those who said they haven't paid a late fee.

About C&R

C&R is a full-service research supplier with 50 years of experience in providing custom-designed qualitative and quantitative research. C&R is based in Chicago, Illinois.